

SEATTLE OFFICE OF ECONOMIC DEVELOPMENT

Recovery Zone Facility Bond (RZFB) Overview

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Background

Recovery Zone Facility Bonds (RZFBs) are a new type of tax exempt bonds designed to spur private investment in economically distressed areas. This program was created as part of the federal stimulus package and is offered through the **American Recovery and Reinvestment Act of 2009** (ARRA). The City of Seattle has authority from the federal government to issue over \$19 million in RZFBs for private projects. As a precondition, the City is designating a “recovery zone” of economically distressed areas eligible for RZFB investment. A map illustrating the boundaries of the Recovery Zone will be posted on the City of Seattle – Office of Economic Development’s website: [www.seattle.gov/economic development](http://www.seattle.gov/economic%20development).

Program Overview

1. How it Works:

For each project, RZFBs will be issued and privately placed with a bank/lender. The bank/lender will then loan the bond proceeds to a project developer. Due to the tax-exempt status of the bonds, the bank/lender may claim a federal income tax exemption on the interest income. In exchange for this tax benefit, the bank/lender offers a reduced rate of interest for the loan (approximately as much as 2% below market interest).

2. Primary Provisions of Recovery Zone Facility Bond Project within the City of Seattle

- A. **Qualified Business** (most for-profit businesses, including manufacturing, distribution, service providers, and retail). See Section 14000U-3 of the IRS for exclusions, including: “residential rental property, private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack, or other facility used for gambling or any store the principle business of which is the sale of alcoholic beverages for consumption off premises.”
- B. **Qualified property** is any depreciable property located within a City of Seattle “Recovery Zone” which a Qualified Business purchases, constructs, reconstructs or renovates after designation of the “Recovery Zone” takes effect. Land does not qualify. Other provisions include:
 - The original use of the property must commence with the applicant (subject to certain substantial renovations and sale-leasebacks (similar to IRS Section 1397D(a)(2))).
 - 95% or more of the net proceeds are to be used for RZ Property.
 - Rules apply related to RZFBs must be issued before January 1, 2011.
- C. The City of Seattle will not provide bond guarantees or offer credit enhancements.

3. The City of Seattle will give priority to projects that create the following economic development benefits (listed in order of priority):

- A. Create and retain permanent jobs
- B. Increase goods and services needed by the neighborhood.
- C. Serve as an anchor for future economic development in the immediate neighborhood.
- D. Enhance the local tax base through increased sales and/or property taxes from future project operations.
- E. Include energy efficient building or process improvements.

4. Other requirements:

- A. Projects need to demonstrate that they are ready to commence construction by the end of 2010.
- B. Indication from bank / lender of their interest in using the bonds.

5. Rolling Application Approval Process:

A. Applications should include the following information :

- Timeline – include milestones for obtaining MUP, construction financing commitment, construction commencement and construction completion dates
- Explanation of pending conditions to achieve milestones
- Development budget (provide itemized sources and uses for development funds)
- Operating pro-forma, including projected revenue and expenses
- Explanation of public benefits that will be achieved, including creation of jobs and economic benefit for the Seattle area
- Letter of interest from lender and explanation of lender's disbursement conditions

- B. City issues **Notice of Eligibility** for projects meeting the threshold criteria (#2-#4, above) and an indication of the City's intent to seek City Council approval. (Note: City Council approval is necessary for commitment of bond issuance)
- C. City Council presentation and approval. City authorizes issuance of RZFBs.
- D. Bonds issued by conduit issuer such as Seattle Industrial Development Corporation or Washington Economic Development Finance Authority (WEDFA).

Further Information – Contact: